

**RURAL WATER DISTRICT NO. 7  
JOHNSON COUNTY, KANSAS**

**FINANCIAL STATEMENTS  
FOR THE YEARS ENDED**

**DECEMBER 31, 2014 AND 2013**

**TOGETHER WITH  
INDEPENDENT AUDITOR'S REPORT**

**RURAL WATER DISTRICT NO. 7  
JOHNSON COUNTY, KANSAS**

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Rural Water District No. 7  
Johnson County, Kansas

**Report on the Financial Statements**

We have audited the accompanying statements of the business-type activities of Rural Water District No. 7, Johnson County, Kansas (the District), as of and for the years ended December 31, 2014 and 2013, and related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

The District's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government auditing Standards, issued by the Controller General of the United States.. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of December 31, 2014 and 2013, and the respective changes in financial position and where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages three through nine be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any other assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Olathe, Kansas  
March 9, 2015



# **WATER DISTRICT No. 7**

## *JOHNSON COUNTY, KANSAS*

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March 9, 2015

<p><b>MANAGEMENT DISCUSSION &amp; ANALYSIS REPORT</b> <b>JANUARY 1, 2014 – DECEMBER 31, 2014</b></p>
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In accordance with guidelines as prescribed in the Governmental Accounting Standards Board (GASB), Statement No. 34, Rural Water District No. 7, Johnson County, Kansas, is submitting this Management Discussion & Analysis Report (MD&A) along with a copy of the audited financial statements performed by the accounting firm Troutt, Beeman & Co., P.C., of Olathe, Kansas. The MD&A report is provided to give the reader a general overview of the activities of the District in its fiscal year 2014, while the audited financial statements provide the general overview of the District's financial position.

### **General Information**

The District was formed and incorporated in 1968. The District secured financing from Farmer's Home Administration (FmHA) in 1974 and began construction of the water system. Construction was completed in 1975 with service to nearly 600 customers realized. The District serves established territories in Johnson, Miami, & Douglas Counties in Kansas.

The District is governed by a nine (9) member Board of Directors (BOD) that oversees the total operations and management of the District. The BOD has regularly scheduled monthly meetings to address any concerns, issues, or actions that are needed for the management and operation of the District. The BOD employs a manager who is responsible for the water system's daily activities, operations, and maintenance. The manager is also responsible for the staffing of the District. The District has a staff of five individuals who perform the duties necessary for its daily operations.

The District has "Territorial Agreements" with each of its municipal city neighbors, including: Olathe, Gardner, Spring Hill and Edgerton. These agreements stipulate the service area for each entity as is defined by a boundary line. This allows each entity to plan its existing and future service areas, as well as its capital improvements within these defined areas. Ideally, this will promote cooperation between the entities and enable the services to these areas to be provided at a reasonable cost without question of which entity will be serving the area.

## **Water Supply**

When first formed, the District had a single source of water supply; the City of Olathe. Since that time it has developed other supply sources, as well as emergency interconnections, that are used to provide the overall wholesale supply and emergency service for the District. These connections and supplies are further summarized:

- The City of Olathe provides approximately 30% of the District's wholesale water supply needs. As mentioned, this source is the original wholesale supply source for the District. In December 2011, the District signed a new 20-year Water Purchase Contract with the City of Olathe. This source should meet, or exceed, the District's supply source needs for this period of time.
- The Hillsdale Reservoir source was established in 1987. The Hillsdale supply is purchased through a raw water assuredness contract with the Kansas Water Office (KWO). The District belongs to a nine-member Interlocal group called the "Hillsdale Area Water Cooperative" (aka HAWC). This consortium, with the assistance of the KWO, combined all water marketing contracts at Hillsdale, along with the needs of its members, into one collective amount and purchased the entire allocation (less one fixed contract KWO had with MI2) of the Kansas Water Marketing Program allocation at Hillsdale Reservoir. The term of this contract between HAWC and the KWO is to the year 2053.

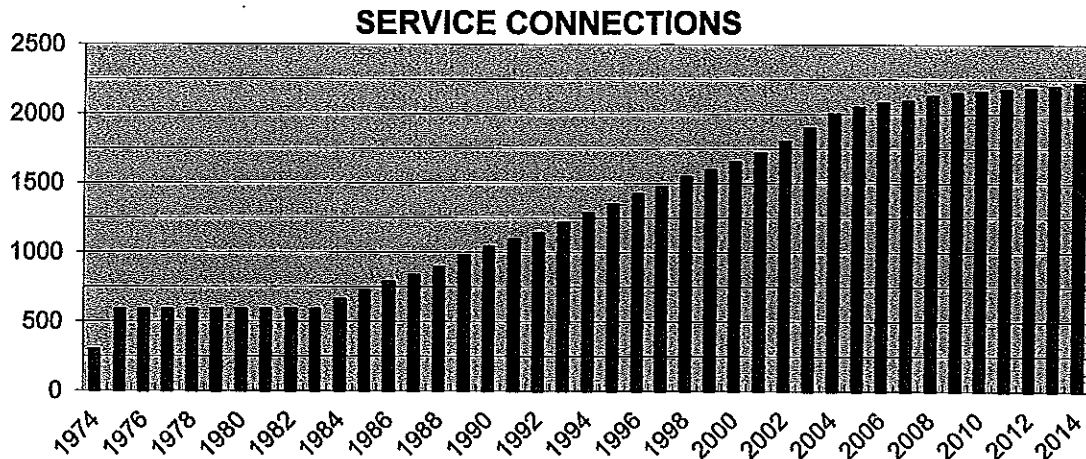
Regarding this same source, the District then contracts with Rural Water District No. 2, Miami County, to withdraw, treat, and deliver this supply into the District's distribution system. As with the Olathe supply, Miami #2 is obligated to meet all federal and state requirements for a public drinking water supply. This source typically provides 70% of the total supply to the District. The contract term with Miami #2 is perpetual and remains in effect for as long as the treatment plant is in operation.

- The third wholesale supply contract is with Johnson County, at the New Century Air Center (NCAC). This supply contract allows the District to serve its service area east of NCAC which currently has limited access to the existing water main grid of the District. This source provides less than 1% of the total supply to the District.
- Emergency interconnections have been established with municipalities and other rural water districts. These interconnections allow for the flow of a water supply during emergency situations. Interconnections with the City of Gardner, City of Edgerton, City of Spring Hill, and Johnson County Consolidated Rural Water District No. 6 are currently in place.

## **General Statistics for 2014**

### **Benefit Units**

In fiscal year 2014, the District sold 25 benefit units (service connections) for a year-ending total of 2,226 active benefit units. This represents the general trend in the District for the past 5 years of an approximate 1% growth rate. (See Chart on next page)



The District's boundaries are located in an area, within the State of Kansas, that was experiencing an accelerated growth pattern prior to 2005. Since that time, lagging new home construction has reduced the potential sales of the District's benefit units.

It is worth noting though, that one of the state's largest economic development projects has been constructed within the service area of the District. BNSF Railways completed its Intermodal Facility (IMF) and began operations in October 2013. The area surrounding the IMF is being developed into the Logistics Park Kansas City (LPKC). This will provide warehousing and distribution centers within close proximity of the IMF. Currently there are five warehouses that are either constructed, or being constructed. In the general area of the LPKC, domestic water supply needs will gradually increase as construction of additional warehouses continues. Subsequent development is also anticipated in the areas surrounding the IMF & LPKC. The District is working with the City of Edgerton and developers in determining the water system needs in the area and enhancing its system to accommodate for the expected growth.

#### **Water Purchases and Water Loss**

The District experienced an average year in 2014, as compared to the drought years of 2011 & 2012. Having a system capable of meeting high demands during drought conditions is an important part of the planning process of the District.

Regardless, public water supply systems typically record the amount of gallons purchased, gallons sold, and subsequent gallons of water loss to determine the performance of the piping system. High water loss percentages indicate potential operational issues with pipes, valves, or leaks in a water system. Total Water loss is isolated into two categories: 1. Accounted Water Loss, and 2. Unaccounted Water Loss. Accounted water loss is water used for flushing and normal operational duties. Unaccounted water loss is water most likely attributed to leaks in the water system itself. Achieving a 15%, or less, unaccounted water loss is commendable. In 2014, the unaccounted water loss was 11.7%.

## **Financial Statistics for 2014**

**Statement of Net Assets Summary (Table 1)** – This table shows a summary of the Total Assets, Total Liabilities, and Net Assets of the District for FY 2014 and FY 2013. Total Assets increased nearly \$600,000 in 2014, with the majority of this increase included within Current Assets (\$487,000). The impact of the 2012 Debt Refinancing is realized again in 2014 with an accelerated reduction of over \$302,000 in debt for the District. Overall, this table indicates a strong performance for the District's expansion of its Assets in 2014.

**TABLE 1**  
**Statement of Net Assets Summary**

	<b>2014</b>	<b>2013</b>	<b>Difference</b>	<b>%</b>
Current Assets	\$ 4,390,672	\$ 3,903,011	\$ 487,661	11%
Capital Assets	\$ 11,957,499	\$ 11,830,320	\$ 127,179	1%
Restricted Assets	\$ 386,996	\$ 382,977	\$ 4,019	1%
Other Assets	\$ 482,123	\$ 501,359	\$ (19,236)	-4%
<b>Total Assets</b>	<b>\$ 17,217,290</b>	<b>\$ 16,617,667</b>	<b>\$ 599,623</b>	<b>3%</b>
Current Liabilities	\$ 491,738	\$ 455,898	\$ 35,840	7%
Long Term Debt	\$ 1,710,000	\$ 2,012,599	\$ (302,599)	-18%
Net Assets	\$ 15,015,552	\$ 14,149,170	\$ 866,382	6%
<b>Total Liabilities &amp; Net Assets</b>	<b>\$ 17,217,290</b>	<b>\$ 16,617,667</b>	<b>\$ 599,623</b>	<b>3%</b>

**Statement of Revenues, Expenses, & Changes in Net Assets Summary (Table 2)** – Operating Revenues were nearly identical for 2013 & 2014; however, the Operating Expenses increased 6% in 2014. A large portion of the Operating Expense increase (over FY 2013) can be traced back to two line item expenses: Water Purchases, and System Repairs. The District's wholesale supplies passed along rate increases to the District in 2014. These increases amounted to an additional \$31,000 in expense in 2014. System Repair costs doubled in 2014 to nearly \$51,000. This can be attributed to an aging water system, with over 180 miles of water mains. This trend will likely continue until older and weaker pipes can be replaced. "Net Income before Contributions" experienced a significant increase in 2014 due to a one-time payment (\$187,700) from the City of Gardner for a group of customers that will ultimately be transferred from the District to Gardner. "Capital Contributions" also increased substantially in 2014. Purchases of large services for warehouses within the LPKC are impacting these contributions. It is expected that the IMF & LPKC will continue to impact the future growth of the District.

**TABLE 2**  
**Statement of Revenues, Expenses & Changes in Net Assets Summary**

	<b>2014</b>	<b>2013</b>	<b>Difference</b>	<b>%</b>
Operating Revenues	\$ 1,692,597	\$ 1,675,453	\$ 17,144	0%
Operating Expenses	\$ 1,648,612	\$ 1,544,804	\$ 103,808	6%
<b>Net Operating Income</b>	<b>\$ 43,985</b>	<b>\$ 130,649</b>	<b>\$ (86,664)</b>	<b>-66%</b>
Net Income before Contributions	\$ 201,686	\$ 71,181	\$ 130,505	183%
Capital Contributions	\$ 664,696	\$ 164,361	\$ 500,335	304%
<b>Net Income</b>	<b>\$ 866,382</b>	<b>\$ 235,542</b>	<b>\$ 630,840</b>	<b>268%</b>
<b>Net Assets</b>	<b>\$ 15,015,552</b>	<b>\$ 14,149,170</b>	<b>\$ 866,382</b>	<b>6%</b>



Regarding other financial matters, it is noted that the BOD annually approves a budget for the ensuing year. Financial statements are prepared monthly for the BOD's review. Also included for their review are monthly comparisons of the previous year and "year-to-date" totals.

### **Debt Obligations**

The District had two active debt obligations in 2014; one from a private banking institution and the other a revenue bond issue from 2012.

All debt obligations were met by the District for the year, whereas approximately \$303,000 of debt was retired. As of December 31, 2014, the principal amount of these two outstanding loans (combined) is approximately \$2.1M.

### **Rates & Fees – 2014**

The BOD annually reviews the rate structure of the District; however, in 2014 a rate study was commissioned to be performed by KDHE (Ranson Financial Consulting). The results of that rate study were presented to the BOD in November, 2014 whereas a 3% rate increase to the patrons was to be made effective January 1, 2015. Depending on the size of service, the current water rate schedule is summarized in Table 3:

**TABLE 3  
Water Rate Schedule**

	5/8" x 3/4" Meter	3/4" Meter	1" Meter	1 1/2" Meter	2" Meter
Monthly Minimum Charge	\$18.03	\$18.03	\$18.03	\$31.27	\$50.67
Per 100 gallon rate	\$0.557	\$0.557	\$0.557	\$0.557	\$0.557

The BOD also generates capital for water system improvements by making available the purchase of benefit units, or right(s) to water service connections, to those desiring a public water supply. This fee is primarily used for funding capital improvements within the District. The BOD annually reviews these fees during its budget review. As a result of these annual reviews, a fee schedule has been adopted for sixteen sizes of meters and their capacity. The fees assigned to these meters are commensurate with other charges levied by neighboring water systems, and account for system demands that the meters could utilize.

### **Operations & Activities in 2014**

The BOD discussed and approved certain system enhancements in 2014. These include the following:

- The upsizing of the LPKC elevated storage tank from 0.5 MG to 1.0 MG. The District took advantage of the incremental cost to upsize a composited elevated storage tank in the general area of the IMF and LPKC to add additional capacity and service to the tank that is being constructed by the LPKC Development team. In doing this, the District entered into an agreement with the LPKC Development team, as well as the City of Edgerton, that would allow the upsizing at the District's cost. It is estimated that the cost for this upsizing will be approximately \$600,000. The BOD subsequently approved a loan, from a private lending institution, in the amount of \$600,000 for the upsizing of the LPKC Tank. The loan rate is 2.65%.

- Approved the installation of water mains along Cedar Niles Road, north of 223<sup>rd</sup> Street in Miami County, which would increase the capacity of the existing service in the area, as well as make service available to properties that had no access to water mains.
- Commissioned a feasibility report for the extension of service to areas that the District attached to its service area in 2013. This area, consisting of approximately 3,000 acres, is located adjacent to the Johnson County/Douglas County border. The report will outline service options for the area. The report is expected to be completed in 2015.
- Approved a "Customer Exchange Agreement" with the City of Gardner that would fulfill some obligations of the 2008 Service Area Agreement which the two entities have in place. This provided a valuation of customers that were being transferred between entities.
- Approved a "Wholesale Water Supply Purchase Agreement" with the City of Gardner that will allow the District to serve some its customers that are not accessible to District mains.
- Approved the sale of a 0.4 acre tract of ground that the District owned in Miami County; which was no longer needed.
- The District continued funding the Meter Replacement Program and the GPS/GIS Mapping Program.

## **Conclusion**

As highlighted in this report, the District continues to meet and exceed the challenges of a public water supply system in Kansas. It is anticipated that a rate increase will be once again considered by the BOD in FY 2015, due to increasing wholesale water supply costs and operational expenses. Rate increases reinforce the BOD's position that maintaining a reasonable rate structure, meeting the debt obligations of the District, and providing adequate reserves, is a priority. It is management's opinion that the financial outlook of the District is stable in these economic times. This is encouraging, despite slow new customer growth and current economic conditions. Customer growth is still expected to occur in the areas the District serves, especially in those areas adjacent to the BNSF IMF and the LPKC. Growth could occur in the area recently attached to the District. This customer base has never had access to a public water supply. The introduction of this access will likely promote interest by property owners.

The District continues to meet and exceed the Debt Service Coverage Ratio (DSCR) requirements of its loan covenants. Rates and fees are commensurate with its neighboring entities. The District's Water Supply Contracts will allow the probability of a quality long-term water source. Operations of the District consistently reveal an aggressive approach to steady improvements and replacement of its facilities. The District has Service Area Agreements with each of its municipal neighbors. This allows a systematic, well planned, growth and expansion of services into defined areas, without risking abandonment of facilities, or costly litigation. This is all indicative of the foresight and direction provided by the BOD.

In conclusion, this report was provided to give a brief overview of the District and its activities in FY 2014. This, in addition to the 2014 audited financial statements, should provide the reader a general outline of the District and its operations.

If there are any questions regarding this information, please feel free to contact the District as provided on the front page of this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Allan Soetaert". The signature is fluid and cursive, with the first name "Allan" written in a larger, more prominent script than the last name "Soetaert".

Allan Soetaert, Manager  
Water District No. 7, Johnson County, Kansas

**RURAL WATER DISTRICT NO. 7  
JOHNSON COUNTY, KANSAS**

**STATEMENTS OF NET POSITION  
DECEMBER 31, 2014 AND 2013**

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 4,111,692	\$ 3,627,667
Accounts receivable	191,474	190,746
Interest receivable	2,064	2,073
Inventories	15,000	15,000
Note receivable	900	-
Prepaid expenses	69,542	67,525
Total current assets	<u>4,390,672</u>	<u>3,903,011</u>
<b>NONCURRENT ASSETS:</b>		
Restricted assets,		
Cash and cash equivalents	386,996	382,977
Other assets:		
Investment in capital leases	475,823	501,359
Note receivable	6,300	-
Total other assets	<u>869,119</u>	<u>884,336</u>
Capital assets:		
Land	103,773	103,773
Buildings and improvements	869,317	866,087
Water system	17,139,252	16,538,081
Operating equipment	377,595	368,780
Accumulated depreciation	<u>(6,532,438)</u>	<u>(6,046,401)</u>
	<u>11,957,499</u>	<u>11,830,320</u>
<b>TOTAL ASSETS</b>	<u>17,217,290</u>	<u>16,617,667</u>
<u>LIABILITIES</u>		
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt	\$ 299,247	\$ 301,986
Accounts payable	87,730	61,253
Accrued expenses	68,546	56,444
Line extension deposits	36,215	36,215
Total current liabilities	<u>491,738</u>	<u>455,898</u>
<b>NONCURRENT LIABILITIES,</b>		
Bonds and notes payable, less current maturities	<u>1,710,000</u>	<u>2,012,599</u>
<b>TOTAL LIABILITIES</b>	<u>2,201,738</u>	<u>2,468,497</u>
<b>NET POSITION:</b>		
Invested in capital assets, net of related debt	10,424,075	10,017,094
Restricted for debt service	386,996	382,977
Restricted for other purposes	36,215	36,215
Unrestricted	<u>4,168,266</u>	<u>3,712,884</u>
<b>TOTAL NET POSITION</b>	<u>\$ 15,015,552</u>	<u>\$ 14,149,170</u>

See accompanying notes.

**RURAL WATER DISTRICT NO. 7  
JOHNSON COUNTY, KANSAS**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>OPERATING REVENUES:</b>		
Water sales	\$ 1,637,726	\$ 1,631,403
Delinquency charges	40,599	37,398
Other charges	<u>14,272</u>	<u>6,652</u>
	<u>1,692,597</u>	<u>1,675,453</u>
<b>OPERATING EXPENSES:</b>		
Source of supply:		
Water purchases	451,764	403,428
Depreciation and amortization	511,573	505,444
Utilities	7,703	9,792
Repairs	50,801	22,545
Supplies	5,109	5,042
Meter reading	6,170	5,821
Water protection fee	10,348	9,656
Plant management fees	6,847	7,112
Salaries and wages	305,723	319,797
Vehicle	20,305	24,699
Insurance	75,279	71,871
Payroll taxes and benefits	73,929	64,517
Office	48,285	44,348
Professional fees	33,289	19,890
Engineering	7,837	423
Bad debts	-	2,000
Miscellaneous	<u>33,650</u>	<u>28,419</u>
	<u>1,648,612</u>	<u>1,544,804</u>
Net operating income	<u>43,985</u>	<u>130,649</u>
<b>NON-OPERATING REVENUE (EXPENSE):</b>		
Interest income	8,032	10,142
Vendor refunds (credits)	-	207
Miscellaneous income	9,337	12,806
Sale of customers	187,700	-
Loss on disposal of capital assets	-	(26,903)
Interest expense	<u>(47,368)</u>	<u>(55,720)</u>
	<u>157,701</u>	<u>(59,468)</u>
Net income before contributions	201,686	71,181
<b>CAPITAL CONTRIBUTIONS</b>	<u>664,696</u>	<u>164,361</u>
Net income	866,382	235,542
<b>NET POSITION:</b>		
Beginning of year	<u>14,149,170</u>	<u>13,913,628</u>
End of year	<u>\$ 15,015,552</u>	<u>\$ 14,149,170</u>

See accompanying notes.

**RURAL WATER DISTRICT NO. 7  
JOHNSON COUNTY, KANSAS**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Received from customers	\$ 1,691,869	\$ 1,658,916
Payments to suppliers	(725,638)	(679,588)
Payments to employees	(365,342)	(377,743)
Note issued, net of repayments	(7,200)	-
Line extension receipts	-	13,765
Other receipts (payments)	<u>9,346</u>	<u>13,013</u>
Net cash provided by operating activities	<u>603,035</u>	<u>628,363</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Capital contributions received	383,861	164,361
Proceeds from sale of capital assets	-	10,750
Sale of customers	187,700	-
Acquisition and construction of assets	(340,240)	(352,768)
Principal paid on capital debt and leases	(305,338)	(289,789)
Interest paid on capital debt and leases	<u>(49,576)</u>	<u>(65,713)</u>
Net cash used by capital and related financing activities	<u>(123,593)</u>	<u>(533,159)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES,</b>		
Investment income	<u>8,032</u>	<u>10,142</u>
Net cash provided by investing activities	<u>8,032</u>	<u>10,142</u>
Net increase (decrease) in cash and cash equivalents	487,474	105,346
Cash and cash equivalents, Beginning of the year	<u>4,010,644</u>	<u>3,905,298</u>
Cash and cash equivalents, End of the year	<u>\$ 4,498,118</u>	<u>\$ 4,010,644</u>

See accompanying notes.

**RURAL WATER DISTRICT NO. 7  
JOHNSON COUNTY, KANSAS**

**STATEMENT OF CASH FLOWS (Continued)  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ <u>43,985</u>	\$ <u>130,649</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	511,573	505,444
Miscellaneous nonoperating income (expense)	9,337	13,013
Receivables, net	(719)	(16,537)
Inventories	-	(5,000)
Prepaid items	(2,017)	(4,325)
Notes receivable, net	(7,200)	-
Accounts payable and accrued liabilities	48,076	(8,646)
Line extension deposits	<u>-</u>	<u>13,765</u>
Total adjustments	<u>559,050</u>	<u>497,714</u>
Net cash provided by operating activities	\$ <u>603,035</u>	\$ <u>628,363</u>
Noncash capital financing activities, Assets contributed by developers	<u>\$ 280,265</u>	<u>\$ -</u>

See accompanying notes.

**RURAL WATER DISTRICT NO. 7  
JOHNSON COUNTY, KANSAS**

**NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

Organization: Rural Water District No. 7, Johnson County, Kansas (the District), is incorporated as a public corporation in accordance with Kansas statutes. The District provides water service primarily to residents of southern Johnson and northern Miami counties. The District provided service to 2,226 and 2,201 customers at December 31, 2014 and 2013, respectively. Credit is extended to these customers in the ordinary course of business.

The District is considered a governmental unit for financial reporting purposes. The District does not have any component units as defined by the criteria set forth in generally accepted accounting principles.

In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. These accounts are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The District records all of its activity in one fund, the Proprietary Fund. Proprietary funds are used to account for operations that are financed and conducted in a manner similar to private business enterprises where the intent is that costs be recovered through user charges.

Accrual Accounting: The financial statements of the District are prepared using the accrual method of accounting. Accordingly, income is recorded as earned and expenses are charged as incurred, regardless of the timing of payments.

Accounts Receivable: The District uses the allowance method to compute bad debt expense. At December 31, 2014 and 2013, the District had a \$5,500 and \$5,500, respectively, allowance for uncollectible accounts.

Inventories: Inventories of materials and supplies are valued at the lower of cost, determined on the first-in, first-out basis, or market.

Capital Assets: Capital assets with an initial, individual cost of \$500 or more are reported at historical cost. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided using the straight-line method over estimated useful lives as follows:

Rural water system	20 - 40 years
Buildings and improvements	15 - 40 years
Operating equipment	5 - 10 years



**RURAL WATER DISTRICT NO. 7  
JOHNSON COUNTY, KANSAS**

**NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

Cash and Restricted Cash: Certain monies are restricted for specific purposes by bond covenants and are unavailable for general operations. The Board has invested the District's money into bank accounts and certificates of deposit.

Bond Discounts and Issuance Costs: Bond discounts and issuance costs are expensed as incurred.

Fund Equity - Government-Wide Statements: Equity is classified as net position and displayed in three components:

1. Net investment in capital assets: Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
2. Restricted net assets: Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets: All other net assets that do not meet the definition of "restricted."

It is the Board's policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Statement of Cash Flows: A statement of cash flows has been presented in accordance with Governmental Accounting Standards Board Statement 9 for the Board as it operates predominantly as a proprietary fund. For purposes of the statement of cash flows, demand deposits, and all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, are considered to be cash equivalents.

**RURAL WATER DISTRICT NO. 7  
JOHNSON COUNTY, KANSAS**

**NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

Compensated Absences: The District implemented a new employee policy effective January 1, 2009. The policy allows full-time employees to accumulate one and a half times the amount of their annual vacation accrual. Pay cannot be received in lieu of unused vacation days. Upon resignation or termination, an employee will be compensated for any accrued but unused vacation leave. Sick leave and personal leave accrues at eight days and three days per year respectively. Unused sick leave and personal leave cannot be carried over to the next year and is not paid upon resignation or termination.

Adoption of FASB Pronouncements: The accounting and reporting policies of the Board conform to generally accepted accounting principles applicable to local governments. With regard to FASB pronouncements issued after November 30, 1989, for its proprietary fund activities, the Board has elected not to adopt any of those pronouncements.

Operating Revenues and Expenses: Operating revenues and expenses for the proprietary fund result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

**2. COLLATERALIZATION:**

At December 31, 2014 and 2013, cash balances were comprised of demand deposits and certificates of deposit. As required by law, the depository banks are to pledge securities in addition to Federal Deposit Insurance Corporation (FDIC) insurance or obtain surety bonds to equal the amount on deposit at all times.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2014 and 2013, none of the District's bank balances of \$4,033,513 and \$4,022,791, respectively, were exposed to custodial credit risk.

**RURAL WATER DISTRICT NO. 7  
JOHNSON COUNTY, KANSAS**

**NOTES TO FINANCIAL STATEMENTS**

**3. CAPITAL ASSETS:**

A summary of changes in capital assets for 2014 follows:

	Beginning Balance 12/31/2013	Additions	Retirements	Ending Balance 12/31/2014
Capital assets not being depreciated,				
Land and improvements	\$ 103,773	\$ -	\$ -	\$ 103,773
Total capital assets not being depreciated	<u>103,773</u>	<u>-</u>	<u>-</u>	<u>103,773</u>
Capital assets being depreciated:				
Buildings	145,372	-	-	145,372
Improvements	720,715	3,230	-	723,945
Operating equipment	368,780	8,815	-	377,595
Water system	<u>16,538,081</u>	<u>601,171</u>	<u>-</u>	<u>17,139,252</u>
Total capital assets being depreciated	<u>17,772,948</u>	<u>613,216</u>	<u>-</u>	<u>18,386,164</u>
Less accumulated depreciation:				
Buildings	90,301	3,572	-	93,873
Improvements	153,808	20,722	-	174,530
Operating equipment	223,455	28,550	-	252,005
Water system	<u>5,578,837</u>	<u>433,193</u>	<u>-</u>	<u>6,012,030</u>
Total accumulated depreciation	<u>6,046,401</u>	<u>486,037</u>	<u>-</u>	<u>6,532,438</u>
Total capital assets being depreciated, net	<u>11,726,547</u>	<u>127,179</u>	<u>-</u>	<u>11,853,726</u>
Capital assets, net	<u>\$ 11,830,320</u>	<u>\$ 127,179</u>	<u>\$ -</u>	<u>\$ 11,957,499</u>

**RURAL WATER DISTRICT NO. 7  
JOHNSON COUNTY, KANSAS**

**NOTES TO FINANCIAL STATEMENTS**

**4. LONG-TERM DEBT:**

Long-term debt at December 31, 2014 and 2013, consisted of the following:

	<u>2014</u>	<u>2013</u>
Kansas Rural Water Finance Authority, Revenue Refunding Bonds, Series D 2012 interest at 2% to 2.75%, due in semi-annual installments varying from year to year until maturity on February 1, 2024	\$ 1,980,000	\$ 2,245,000
Gardner National Bank, USDA Rural Development guaranteed loan, interest of 6.14%, due in monthly installments until maturity on October 15, 2015	<u>29,247</u>	<u>69,585</u>
	2,009,247	2,314,585
Less: current maturities	<u>299,247</u>	<u>301,986</u>
	<u>\$ 1,710,000</u>	<u>\$ 2,012,599</u>

Changes in long-term debt of the District for the year ended December 31, 2014, consisted of the following:

	Balance December 31, 2013	Additions	Retirements	Balance December 31, 2014	Amounts Due within One Year
Notes payable	\$ <u>2,314,585</u>	\$ <u>-</u>	\$ <u>305,338</u>	\$ <u>2,009,247</u>	\$ <u>299,247</u>

Provisions of the loan indentures make the following requirements for the District to assure profitable operation and timely repayment of debt.

Establishment of rates adequate to insure "net revenues" (as defined by the indenture) of the District, are at least equal to 125% of the total principal and interest payments due each year.

The District is required to establish an operation and maintenance account of which the funds are to pay for reasonable and proper current expenses of the system for a period of 30 days. The District is also required to establish and adequately fund principal and interest reserve accounts.

At December 31, 2014 and 2013, the District was in compliance with the provisions of the loan indentures.

**RURAL WATER DISTRICT NO. 7  
JOHNSON COUNTY, KANSAS**

**NOTES TO FINANCIAL STATEMENTS**

**4. LONG-TERM DEBT (Continued):**

Aggregate annual principal and interest payments applicable to long-term notes are:

Years Ending December 31,	Principal	Interest	Total Debt Service
2015	\$ 299,247	\$ 41,908	\$ 341,155
2016	275,000	35,585	310,585
2017	280,000	30,035	310,035
2018	285,000	24,575	309,575
2019	290,000	19,255	309,255
2020-2024	<u>580,000</u>	<u>35,380</u>	<u>615,380</u>
	<u>\$ 2,009,247</u>	<u>\$ 186,738</u>	<u>\$ 2,195,985</u>

**5. CAPITAL LEASE OBLIGATION:**

In 1987, the District entered into a water supply contract with Rural Water District No. 2, Miami County, Kansas, to purchase water from the Hillsdale Lake Water Treatment Facility. In addition to the variable and fixed operating costs of the water, the District is also required to pay 20% of the debt retirement funds required for initial construction of the facility and 10% of the expansion project. The contract, amended in 1998, is valid as long as the Hillsdale Lake Water Treatment Facility is in operation.

The contract provision requiring payment of 20% of the construction costs is classified as a capital lease. Although the contract does not transfer ownership of the facility to the District, the lease term and the minimum lease payments are of such magnitude as to classify the contract as a capital lease.

	2014	2013
Water Treatment Facility	\$ 1,021,487	\$ 1,021,487
Less: Accumulated amortization	<u>545,664</u>	<u>520,128</u>
	<u>\$ 475,823</u>	<u>\$ 501,359</u>

The District uses the same method of amortization as it uses for depreciation of fixed assets, straight-line amortization over the 40 year term.

**RURAL WATER DISTRICT NO. 7  
JOHNSON COUNTY, KANSAS**

**NOTES TO FINANCIAL STATEMENTS**

**5. CAPITAL LEASE OBLIGATION (Continued):**

In April 1998, Rural Water District No. 2, Miami County, Kansas, issued bonds in order to refinance its existing bonds for the water treatment facility. Rural Water District No. 2, Miami County, Kansas, also secured additional funds for which the District did not receive any benefit. Accordingly, the District is required to pay 10.94%, which is their proportional share of the initial 20% construction costs on the Hillsdale Lake Water Treatment Facility.

The capital lease was paid off as scheduled in 2008.

**6. RETIREMENT PLAN:**

Section 457 Plan

Effective September 1, 2001, the District initiated a retirement plan under Section 457 of the Internal Revenue Code. This plan covers substantially all full-time employees. The District's contribution ranges from 2.5% to 4.5% of compensation depending upon the employee's number of years of service. The amount charged to operations for the year ended December 31, 2014 and 2013, was \$12,858 and \$13,283, respectively.

Kansas Public Employees Retirement System

The Water District contributes to the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901. KPERS provides retirement benefits, life insurance, and disability income benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 Kansas, Suite 100; Topeka, KS 66603) or by calling 1-888-275-5737.

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rates established for the calendar years 2014 and 2013 were 8.84% and 7.94%, respectively. The Water District employer contributions to KPERS for the years ending December 31, 2014 and 2013, were \$29,830 and \$26,896, respectively, equal to the required contributions for each year.

**RURAL WATER DISTRICT NO. 7  
JOHNSON COUNTY, KANSAS**

**NOTES TO FINANCIAL STATEMENTS**

**7. SUMMARY OF INSURANCE COVERAGE:**

The following is a schedule of the District's insurance coverage at December 31, 2014:

<u>Insurer/Type of Coverage</u>	<u>Policy Period</u>	<u>Coverage</u>	<u>Premium</u>
Employers Mutual			
Real and personal property	2/1/14-2/1/15	\$ 2,091,700	\$ 6,450
General liability	2/1/14-2/1/15	\$ 1,000,000	\$ 4,715
\$1,000,000 per occurrence			
\$2,000,000 aggregate			
Inland marine	2/1/14-2/1/15	\$ 103,546	\$ 785
Employee dishonesty	2/1/14-2/1/15	\$ 250,000	\$ 317
Employers Mutual			
Business automobile liability	2/1/14-2/1/15	\$ 1,000,000	\$ 4,380
Directors and officers liability	2/1/14-2/1/15	\$ 1,000,000	\$ 1,799
EMCASCO Insurance Co.			
Workers' compensation	2/1/14-2/1/15		\$ 9,270
Bodily injury by accident-ea. accident		\$ 500,000	
Bodily injury by disease-ea.		\$ 500,000	
Bodily injury by disease-policy limit		\$ 500,000	
Employers Mutual			
Umbrella policy	2/1/14-2/1/15	\$ 1,000,000	\$ 1,588
Data renewal	2/1/14-2/1/15		\$ 69
Old Republic Insurance			
Right-of-way bond	7/20/14-7/20/15	\$ 50,000	\$ 250

**8. RISK MANAGEMENT:**

The Water District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Water District joined together with other entities in the State to participate in Employers Mutual Insurance Corp. (EMC), a public entity risk pool currently operating as a common risk management and insurance program for the participating members.

**RURAL WATER DISTRICT NO. 7  
JOHNSON COUNTY, KANSAS**

**NOTES TO FINANCIAL STATEMENTS**

**8. RISK MANAGEMENT (CONTINUED):**

The Water District pays an annual premium to EMC for its insurance coverage. The agreement to participate provides that EMC will be self-sustaining through member premiums. Additional premiums may be due if total claims for the pool are different than what has been anticipated by EMC management.

**9. TAX-EXEMPT STATUS:**

The District's management believes it has operated as a tax-exempt municipal corporation within the meaning of all applicable federal and state laws. Therefore, no provision has been made in the financial statements for income taxes.

**10. COMPLIANCE WITH KANSAS STATUTES:**

Management is aware of no statutory violations for the period covered by the audit.

**11. CONTRIBUTED CAPITAL:**

A summary of contributed capital from inception is as follows:

	<u>2014</u>	<u>2013</u>
<b>GOVERNMENT CONTRIBUTIONS:</b>		
Balance, Beginning of year	\$ 3,359,971	\$ 3,306,240
Construction contributions	<u>-</u>	<u>53,731</u>
Balance, End of year	<u>3,359,971</u>	<u>3,359,971</u>
<b>MEMBER CONTRIBUTIONS:</b>		
Balance, Beginning of year	6,973,962	6,879,362
Benefit units sold	<u>318,000</u>	<u>94,600</u>
Balance, End of year	<u>7,291,962</u>	<u>6,973,962</u>
<b>DEVELOPER CONTRIBUTIONS:</b>		
Balance, Beginning of year	2,624,542	2,608,512
Contributions for capital improvements	<u>346,126</u>	<u>16,030</u>
Balance, End of year	<u>2,970,668</u>	<u>2,624,542</u>
Total contributed capital	<u>\$ 13,622,601</u>	<u>\$ 12,958,475</u>



**RURAL WATER DISTRICT NO. 7  
JOHNSON COUNTY, KANSAS**

**NOTES TO FINANCIAL STATEMENTS**

**12 NOTE RECEIVABLE**

During 2014 the District sold a plot of land. The buyer issued a promissory note to the District in the amount of \$7,500. There is no interest payable to the District and the District is to receive \$75 per month for the next 8 years. During 2014 the District received payments in the amount of \$300. The balance at December 31, 2014, is \$7,200.

**13. SUBSEQUENT EVENTS**

In January 2015 the District obtained a loan in the amount of \$600,000 from a local financial institution. Its purpose is the construction of a water storage tank. Subsequent events have been evaluated through March 9, 2015, which is the date the financial statements were evaluated to be issued.

**14. CONSTRUCTION COMMITMENTS**

At December 31, 2014, the District had a firm construction commitment to increase water storage capacity in the amount of \$600,000. A loan was taken out by the District as detailed in Note 13.